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Second Edition, Revised

PERSONAL FINANCIAL STATEMENTS GUIDE

AICPA

American Institute of Certified Public Accountants

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PERSONAL FINANCIAL STATEMENTS GUIDE

This edition of the *Personal Financial Statements Guide* has been modified by the AICPA staff to include certain changes necessary due to the issuance of authoritative pronouncements since the guide was originally issued. The changes made are identified in a schedule in Appendix F of the guide. The changes do *not* include all those that might be considered necessary if the guide were subjected to a comprehensive review and revision.

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NOTICE TO READERS

This Guide presents recommendations of the AICPA Personal Financial Statements Task Force on the application of professional standards to compilations, reviews, and audits of personal financial statements. Members of the AICPA Accounting and Review Services Committee and Auditing Standards Board have found this guide to be consistent with existing standards covered by Rule 202 of the AICPA Code of Professional Conduct. AICPA members should be prepared to justify departures from this guide.

Personal Financial Statements Task Force (1982-1983)

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Chapter 1

Introduction

Background Information

1.01 The purpose of this guide is to assist the accountant in applying professional standards to engagements involving personal financial statements.

1.02 Statement of Position (SOP) 82-1, *Accounting and Financial Reporting for Personal Financial Statements,* states that personal financial statements should present assets at their estimated current values and liabilities at their estimated current amounts and describes in detail the principles for such presentations. (SOP 82-1 is reproduced in Appendix E of this guide.)

1.03 Some procedures are common to all personal financial statement engagements; for example,

- A decision is made whether to accept a prospective client.
- An understanding is reached with the client regarding the type of service to be rendered.
- Ordinarily information is gathered.

Accountants may be engaged to compile, review, or audit personal financial statements.

1.04 Accountants may also be asked to report on specified elements, accounts, or items of a personal financial statement. In those circumstances the guidance provided by Statement on Auditing Standards (SAS) No. 62, *Special Reports;* SAS No. 35, *Special Reports—Applying Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement;* or Accounting and Review Services Interpretation 8 of Statement on Standards for Accounting and Review Services (SSARS) 1, *Reports on Specified Elements, Accounts, or Items of a Financial Statement* [1] should be followed as applicable.

Acceptance of Clients

1.05 Before accepting an engagement involving personal financial statements, the accountant ordinarily would evaluate certain aspects of the potential client relationship.[2] In general, the accountant may wish to consider—

- Facts that might bear on the integrity of the prospective client.
- Circumstances that present unusual business risk.
- His ability to serve the prospective client.
- The effect of the lack of independence on the type of report he may appropriately issue in compliance with professional standards.
- Whether available accounting records or other data provide a sufficient basis for providing the services requested.

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[1] AICPA, *Professional Standards,* vol. 2, AR section 9100.27 and .28.

[2] See SAS No. 25, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards.* According to SAS No. 25, a firm of independent auditors should establish quality control policies and procedures to provide reasonable assurance that audit engagements are conducted in accordance with generally accepted auditing standards. An important element of quality control is the establishment of policies and procedures relating to acceptance of clients. Firms that are members of the AICPA Division for CPA Firms are obligated to adhere to quality control standards promulgated by the Institute.

1.06 Consideration of the character and reputation of the individual helps to minimize the possibility of association with a client who lacks integrity. The extent of the accountant's inquiries before acceptance might depend on his previous knowledge of the client and the nature of the client's financial activities. The accountant may want to consult predecessor accountants or auditors,[3] attorneys, bankers, and others having business relationships with the individual regarding facts that might bear on the integrity of the prospective client. This does not suggest that, in accepting an engagement, the accountant vouches for the integrity or reliability of a client. However, prudence suggests that an accountant be selective in determining his professional relationships.

1.07 Consideration of circumstances that present unusual business risk might include, for example, considering whether an individual is in serious financial difficulty.

1.08 Professional standards require the accountant to attain a certain level of knowledge of his client's financial activities. Before accepting an engagement, the accountant should consider whether he can obtain an appropriate understanding of the nature of the client's financial activities and the specialized accounting principles and practices related to any of the prospective client's financial activities. The level of knowledge required is discussed in the compilation, review, and audit sections of this guide [chapters 2 through 4].

1.09 SSARS 1, *Compilation and Review of Financial Statements,* permits the accountant to issue a compilation report on personal financial statements of an individual with respect to whom he is not independent. However, the accountant should be independent to issue a review report or an audit opinion.

1.10 Before accepting an engagement involving personal financial statements, the accountant may want to ask the potential client about the availability of records and consider whether available records provide a basis sufficient for providing the service requested. Incomplete or inadequate accounting records are likely to give rise to problems in compiling, reviewing, or auditing personal financial statements. Because of the informal nature of most personal financial records, the accountant should evaluate the need to perform other accounting services in conjunction with personal financial records.

Establishing an Understanding With the Client

1.11 Once the accountant has decided to accept an engagement involving personal financial statements, he should establish an understanding with the client, preferably in writing, regarding the services to be performed and the terms and objectives of the engagement. Illustrative letters describing such an understanding are included in Appendix A.

1.12 Occasionally the client may request during the engagement that the accountant change the nature of the services provided. When a decision is made to change the level of service being provided to the client, the accountant should establish an understanding with the client, preferably in writing, regarding the modification of the services to be performed and the revised terms and objectives of the engagement.

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[3] SSARS 4, *Communications Between Predecessor and Successor Accountants,* provides guidance to a successor accountant who decides to communicate with a predecessor accountant regarding acceptance of an engagement to compile or review financial statements. SAS No. 7, *Communications Between Predecessor and Successor Auditors,* provides guidance on certain communications that should be attempted by a successor auditor with a predecessor auditor when a change in auditors has taken place or is in process.

Other Comprehensive Bases of Accounting

1.13 SOP 82-1 states that personal financial statements should present assets at their estimated current values and liabilities at their estimated current amounts. The accountant may compile, review, or audit personal financial statements that are prepared in conformity with a comprehensive basis of accounting that presents assets and liabilities at values and amounts other than estimated current values and amounts. For purposes of personal financial statements, other comprehensive bases of accounting include, for example, historical cost, tax, and cash.

1.14 Although this guide is directed toward personal financial statements prepared in conformity with generally accepted accounting principles, the accountant may wish to consider its guidance for personal financial statements prepared in conformity with other comprehensive bases of accounting. Reports on personal financial statements prepared in conformity with another comprehensive basis of accounting are illustrated in paragraph 5.19 of this guide.

Gathering Information

1.15 Since the financial records of individuals are often informal, only a portion of assets and liabilities may have been recorded. If so, the available accounting records may not provide an adequate basis for financial statements, and the accountant should consider the extent of other services he may have to render to assist the client in gathering the necessary information. A list of possible sources of such information is included in Appendix B.

1.16 It may be necessary to obtain information from outside sources such as bankers, financial consultants, attorneys, and others who might know about the client's financial affairs.

1.17 In assisting the client in gathering information, the accountant should also be aware that in addition to the estimated current values of assets and the estimated current amounts of liabilities included in the financial statements, the tax bases of the assets and liabilities are necessary to calculate the estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases.

Use of Estimated Current Values and Amounts

1.18 In all cases the accountant should have an understanding of the accounting principles and practices used to determine estimated current values and amounts. The accountant's responsibilities regarding estimated current values and amounts in the compilation, review, or audit of personal financial statements are discussed further in the respective sections of this guide dealing with each type of service.

1.19 In some cases the determination of the estimated current values of assets and the estimated current amounts of liabilities may require the use of a specialist to gather information necessary for financial statement presentation. Factors that should be considered in determining whether use of a specialist is necessary to develop the accounting information include —

- The materiality of the item with respect to the individual's financial condition.
- The nature of the financial statement item.

- The date of any previous estimate involving the use of a specialist, the extent of changes in the circumstances since that date, and the method of updating the estimate, if appropriate.

Client Representation Letters

1.20 During an engagement, the client makes many representations to the account, both oral and written, in response to specific inquiries or through the financial statements. Such representations from the client are an important part of the information gathered by the accountant. Written representations from the client to confirm oral representations given to the accountant indicate and document the continuing appropriateness of those representations and reduce the possibility of misunderstanding.

1.21 Generally accepted auditing standards require that the independent auditor obtain certain written representations as part of every audit engagement. Review and compilation engagements do not contemplate tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter. However, because of the informal nature of most personal financial records, among other things, it is advisable to obtain written representations from the client to confirm the oral representations made in all personal financial statement engagements.

1.22 Written representations should be addressed to the accountant. Because the accountant is concerned with events occurring through the date of his report that may require adjustment to or disclosure in the financial statements, the representation letter should be dated as of that date and signed by the individual whose financial condition is being presented.

1.23 Each representation letter should be worded to fit the circumstances of the particular engagement. (See SAS No. 19, *Client Representations* and SSARS 1 [Appendix D] for general guidance.) An illustrative client representation letter is included in Appendix C of this guide.

Chapter 2

Compilation of Personal Financial Statements

2.01 Standards for compilation of financial statements prescribed by SSARS 1 are applicable to the compilation of personal financial statements in the same manner as to the compilation of other financial statements. However, SSARS 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans,* provides an exemption from SSARS 1 for personal financial statements that are included in written personal financial plans prepared by an accountant, and specifies the form of written report required under that exemption. (See paragraphs 5.21 through 5.26.) Nonetheless, SSARS 6 does not preclude an accountant from complying with SSARS 1 in such engagements.

2.02 SSARS 1 states that the accountant should possess a general understanding of the nature of the individual's financial transactions, the form of available accounting records, the stated qualifications of accounting personnel, if any, the accounting basis on which the financial statements are to be presented, and the form and content of the financial statements. The accountant ordinarily obtains knowledge of these matters through experience with the individual or inquiry of the individual whose financial statements are being compiled. Based on this understanding, the accountant should consider the extent of other services that might be required to assist the individual in gathering the information necessary to compile the financial statements.

2.03 Ordinarily an accountant can compile personal financial statements based on the individual's representation of the estimated current values of assets and the estimated current amounts of liabilities. At a minimum, however, the accountant should obtain an understanding of the methods by which the individual determined the estimated current values of significant assets and the estimated current amounts of significant liabilities and consider whether the methods are appropriate in light of the nature of each asset or liability. The following section of this guide provides guidance on the accountant's reporting responsibilities when he believes that such methods are inappropriate.

2.04 The accountant is not required to make inquiries or perform other procedures to verify, corroborate, or review information supplied by the individual. However, the accountant should obtain additional or revised information if he becomes aware that information supplied to him by the individual is incorrect, incomplete, or otherwise unsatisfactory for the purpose of compiling personal financial statements. If the individual refuses to provide additional or revised information, the accountant should withdraw from the compilation engagement.

2.05 Before issuing his report, the accountant should read the compiled personal financial statements and consider whether such financial statements appear to be appropriate in form and free from obvious material errors. In this context the term error refers to mistakes in the compilation of financial statements, including arithmetical or clerical mistakes, and mistakes in the application of accounting principles, including inadequate disclosure. Misstatements that might occur in personal financial statements prepared in conformity with generally accepted accounting principles include—

- Failure to record estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases.
- Failure to disclose the methods used to determine estimated current values and amounts.
- Failure to record accounts on the accrual basis.
- Presentation of an asset or liability at an obviously inappropriate value or amount.

Reporting on Compiled Personal Financial Statements

2.06 An accountant may be asked to issue a compilation report on a statement of financial condition when a statement of changes in net worth has not been prepared. The accountant is not precluded from undertaking such an engagement.

2.07 If the accountant believes that the methods used to determine the estimated current values of assets and the estimated current amounts of liabilities are not in accordance with SOP 82-1, or if he believes that the methods are not appropriate in light of the nature of each asset and liability, he should modify his report because of a departure from generally accepted accounting principles or withdraw from the engagement.[4]

2.08 Uncertainties that might be encountered in personal financial statements include—

- Contingencies as defined in FASB Statement No. 5, *Accounting for Contingencies* (for example, lawsuits).
- Doubts about the ability of individuals in serious financial difficulty to meet their obligations.

Normally an uncertainty would not cause the accountant to modify the standard report provided the financial statements appropriately disclose the matter. Although not a requirement, the accountant may wish to draw attention to such uncertainties in an explanatory paragraph of his compilation report. If so, he should follow the guidance in Interpretation 11 of SSARS 1.[5]

2.09 Paragraphs 19 through 21 of SSARS 1 permit an accountant to compile financial statements that omit substantially all disclosures required by generally accepted accounting principles. However, if personal financial statements omit disclosure of the use of a comprehensive basis of accounting other than estimated current values and amounts, the accountant should follow the guidance in Interpretation 12 of SSARS 1.[6] Also, since generally accepted accounting principles for personal financial statements involve measurement principles different from those for other reporting entities, the accountant should disclose the use of estimated current values and amounts in his report if that disclosure is not provided in the financial statements.

2.10 Compilation reports for personal financial statements are illustrated in paragraphs 5.03 through 5.09, 5.11, and 5.12.

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[4] See SSARS 1, paragraphs 39 through 41, and Interpretations 6 and 7 of SSARS 1 (AICPA, *Professional Standards,* vol. 2, AR sections 9100.18-.26).

[5] AICPA, *Professional Standards,* vol. 2, AR section 9100.33-.40.

[6] AICPA, *Professional Standards,* vol. 2, AR section 9100.41-.45.

Chapter 3

Review of Personal Financial Statements

3.01 Standards for review of financial statements prescribed by SSARS 1 are applicable to the review of personal financial statements in the same manner as to the review of other financial statements.

3.02 The accountant should possess a level of knowledge of the accounting principles and practices applicable to personal financial statements and an understanding of the individual's financial activities and financial position that will provide him, through the performance of inquiry and analytical procedures, with a reasonable basis for expressing limited assurance that there are no material modifications that should be made to the financial statements for the statements to be in conformity with generally accepted accounting principles. The accountant's understanding of the individual's financial activities should include a general understanding of the nature of the individual's assets and liabilities, the sources of his income, and the nature of significant expenditures and material transactions with related parties. An accountant's understanding of these matters is ordinarily obtained through experience with and inquiry of the individual whose financial condition is being presented.

3.03 The accountant's inquiry and analytical procedures should ordinarily consist of—

- Inquiries concerning accounting principles and practices and methods followed in applying them and any significant assumptions or interpretations underlying their use.
- Inquiries concerning whether the methods and procedures for determining the estimated current values of assets and the estimated current amounts of liabilities are in accordance with those described in SOP 82-1 and are appropriate in light of the nature of each asset or liability.
- Inquiries concerning the sources of information used in determining the estimated current values of assets and the estimated current amounts of liabilities.
- Inquiries concerning procedures for recording, classifying, and summarizing transactions, and accumulating information for disclosure in the financial statements.
- Analytical procedures designed to identify relationships, individual items, and estimated current values and amounts that appear to be unusual. Analytical procedures consist of comparison of the financial statements with statements for comparable prior periods and study of the relationships of the elements in the financial statements that would be expected to conform to a predictable pattern. In applying these procedures, the accountant should consider the types of matters that required accounting adjustments in preceding periods. Examples of relationships of elements in personal financial statements that might be expected to conform to a predictable pattern include marketable securities and other income-producing assets to investment income, debt to interest expense, and real property to real estate taxes.
- Consideration of whether the results of analytical procedures are consistent with responses to related inquiries.

- Reading the financial statements to consider, on the basis of information coming to the accountant's attention, whether the financial statements appear to conform with generally accepted accounting principles.
- Applying appropriate review procedures to financial statements of entities that compose a significant portion of the individual's assets or obtaining reports from other accountants who have been engaged to audit, review, or compile financial statements of such entities. If such financial statements have been compiled by another accountant, the accountant ordinarily would find it necessary to apply certain inquiry and analytical procedures to the statements if he intends to rely on them as a basis, in part, for his review report on the individual's financial statements. Financial statements of such other entities may be used in the determination of the estimated current value of the individual's investment in the entity and are the source of certain summarized financial information that is required to be disclosed in accordance with SOP 82-1.
- Inquiries of the individual concerning (1) whether the financial statements have been prepared in conformity with generally accepted accounting principles consistently applied, (2) changes in the individual's financial activities or accounting principles and practices, (3) matters about which questions have arisen in the course of applying the foregoing procedures, and (4) events subsequent to the date of the financial statements that would have a material effect on the financial statements.

3.04 If the estimated current values of assets presented in reviewed personal financial statements are based on capitalized prospective earnings or the discounted amounts of projected cash receipts and payments, the accountant should—

- Inquire about the process by which the individual identified key factors that affect the prospective data and developed assumptions for those factors.
- Inquire as to whether assumptions have been made with respect to all key factors upon which the prospective data appear to depend.
- Consider whether the assumptions appear to be inappropriate for the purpose of determining the estimated current values of the assets.

3.05 If a specialist has been engaged to determine the estimated current values of assets included in the financial statements being reviewed, the accountant's review procedures should include inquiring about the qualifications and reputation of the specialist and the nature of the work performed. Factors that should be considered in determining whether the use of a specialist is necessary are listed in paragraph 1.19. If a specialist is used, the accountant may also wish to consider other guidance in SAS No. 11, *Using the Work of a Specialist,* in determining appropriate procedures, giving due respect to the nature of a review engagement.

3.06 These inquiry and analytical procedures should provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that need to be made to the financial statements for them to be in conformity with the accounting principles in SOP 82-1. (See Appendix D of this guide for a listing of illustrative inquiries for reviews of personal financial statements.) A review does not contemplate obtaining an understanding of the internal control structure or assessing control risk, tests of accounting records and of responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. Thus, a review does not provide assurance that the accountant will become aware of all significant matters that would be disclosed in an audit. However, if the accountant becomes aware that information coming to his attention is incorrect, incomplete, or otherwise unsatisfactory, he should perform the additional procedures he considers necessary to achieve limited assurance that there are no material modifications that should be made to the financial statements for them to be in conformity with generally accepted accounting principles.

Reporting on Reviewed Personal Financial Statements

3.07 An accountant may be asked to issue a review report on a statement of financial condition when a statement of changes in net worth has not been prepared. The accountant is not precluded from undertaking such an engagement provided he has access to information regarding changes in net worth that he believes is necessary to apply appropriate analytical procedures to the statement of financial condition and the scope of his inquiries has not been restricted.

3.08 An accountant is occasionally unable to perform inquiry and analytical procedures he considers necessary to achieve the limited assurance contemplated by a review. An incomplete review is not an adequate basis for issuing a review report. In such circumstances the accountant should consider whether he might also be precluded from issuing a compilation report on the financial statements. (See chapter 2.) Consideration of such circumstances is discussed in SSARS 1, paragraphs 36 and 44 through 49.

3.09 If the accountant believes that the methods used to determine the estimated current values of assets and the estimated current amounts of liabilities are not in accordance with SOP 82-1, or if he believes that the methods are not appropriate in light of the nature of each asset or liability, he should modify his report because of the departure from generally accepted accounting principles or withdraw from the engagement.[7]

3.10 Uncertainties that might be encountered in personal financial statements include—

- Contingencies as defined in FASB Statement No. 5, *Accounting for Contingencies* (for example, lawsuits).
- Doubts about the ability of individuals in serious financial difficulties to meet their obligations.

Normally, an uncertainty would not require the accountant to modify the standard review report, provided the financial statements appropriately disclose the matter and he has performed the inquiry and analytical procedures he considers necessary in the circumstances. Although it is not a requirement, an accountant may wish to draw attention to an uncertainty in an explanatory paragraph of his review report. If so, he should follow the guidance in Interpretation 11 of SSARS 1.[8]

3.11 Review reports for personal financial statements are illustrated in paragraph 5.10 through 5.12.

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[7] See SSARS 1, paragraphs 39 through 41, and Interpretations 6 and 7 of SSARS 1 (AICPA, *Professional Standards*, vol. 2, AR section 9100.18-.26).

[8] AICPA, *Professional Standards*, vol. 2, AR section 9100.33-.40.

Chapter 4

Audit of Personal Financial Statements

4.01 Generally accepted auditing standards apply to audits of personal financial statements in the same manner as to audits of other financial statements. The scope of the audit should enable the independent auditor to conclude that he has a reasonable basis for expressing an opinion on whether the statements are presented fairly in conformity with generally accepted accounting principles. Generally accepted auditing standards include obtaining an understanding of the internal control structure sufficient to plan the audit and to determine the nature, timing, and extent of tests to be performed, tests of accounting records and of responses to inquiries, and other procedures considered necessary in the circumstances. Most of the independent auditor's work in forming his opinion on personal financial statements consists of obtaining evidential matter concerning the assertions of existence or occurrence, completeness, rights and obligations, valuation or allocation, and presentation and disclosure in the financial statements. Because of the nature of personal financial records, obtaining that evidential matter may be difficult. As a result, it may be impracticable to conduct an audit of personal financial statements in accordance with generally accepted auditing standards and express an unqualified opinion.

4.02 The internal control structure maintained by an individual may differ from internal control structures maintained by commercial entities. Internal control structure policies and procedures are concerned mainly with the safeguarding of assets and the reliability of financial records. Individuals usually have adequate physical control over assets. However, individuals often do not have a formal system of recording transactions, and there is seldom adequate segregation of functions.

4.03 After obtaining an understanding of the individual's internal control structure, the auditor assesses control risk for the assertions embodied in the account balance, transaction class, and disclosure components of the financial statements. The auditor may assess control risk at the maximum level (the greatest probability that a material misstatement that could occur in an assertion will not be prevented or detected on a timely basis by an individual's internal control structure) because he believes policies and procedures are unlikely to pertain to an assertion, are unlikely to be effective, or because evaluating their effectiveness would be inefficient. Alternatively, the auditor may obtain evidential matter about the effectiveness of both the design and operation of a policy or procedure that supports a lower assessed level of control risk.

4.04 If procedures applied by the auditor do not result in his being satisfied with the completeness of the financial records, he should qualify his opinion or disclaim an opinion on the financial statements, as appropriate in the circumstances.[9]

4.05 In auditing personal financial statements, the auditor should also consider the guidance provided by SAS No. 12, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments,* for assessing contingencies. If the individual has not retained legal counsel, the auditor should obtain written representations from the individual that legal counsel has not been retained and that the individual is not aware of any litigation, claims, or

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[9] See SAS No. 58, *Reports on Audited Financial Statements.*

assessments that have been or might be asserted against him. (See Appendix C of this guide.)

Auditing Estimated Current Values of Assets

4.06 The procedures performed by an auditor in an audit of personal financial statements presented on the estimated current value basis should be designed to achieve the audit objectives related to the individual's assertions of existence or occurrence, completeness, rights and obligations, and presentation and disclosure, just as in audits of historical cost financial statements. The audit tests related to valuation, however, require special attention. The accounting principles for determining estimated current values are described in SOP 82-1. SAS No. 57, *Auditing Accounting Estimates,* provides guidance to auditors on obtaining and evaluating sufficient competent evidential matter to support significant accounting estimates in an audit of financial statements in accordance with generally accepted auditing standards. In all cases the auditor should tailor the procedures he uses to audit the estimated current value of an asset to the nature of the asset and the method used to determine the estimated current value.

4.07 The principles prescribed in SOP 82-1 state that "recent transactions involving similar assets and liabilities in similar circumstances ordinarily provide a satisfactory basis for determining the estimated current value of an asset or the estimated current amount of a liability." When the estimated current value of an asset is based on an actual market price, the auditor should—

- Obtain satisfaction that the actual market price used to value the asset is appropriate.
- Test the computation of the estimated current value of the asset.

An example of an asset for which market prices are readily available is marketable securities. The estimated current values of such securities are their quoted market prices.

4.08 The accounting principles described in SOP 82-1 allow the use of the following methods for determining the estimated current values of assets for which recent sales information is not available:

- Adjustment of historical cost based on changes in a specific price index
- The use of appraisals
- The use of liquidation value
- Capitalization of past earnings
- Capitalization of prospective earnings
- The use of the discounted amounts of projected cash receipts and payments

When any of the foregoing methods are used by an individual to determine the estimated current value of an asset, the auditor should—

- Evaluate the appropriateness of the method used in light of the nature of the asset and the provisions of SOP 82-1.
- Test underlying documentation and the computation of the estimated current value.
- Ascertain that the method has been appropriately applied.
- Consider whether the assumptions used in determining the estimated current value are appropriate and suitably supported.

In addition, the auditor should apply procedures similar to those discussed in the following paragraphs, as appropriate in particular circumstances.

4.09 When the estimated current value of an asset is determined by adjusting historical cost based on changes in a specific price index, the auditor should—

- Obtain satisfaction that the historical cost basis being adjusted is appropriate.
- Consider whether the index used is appropriate for the asset to which it has been applied.
- Test the application of the index to the historical cost data.

4.10 When the estimated current value of an asset is based on an appraisal, the auditor should follow the guidance provided by SAS No. 11, *Using the Work of a Specialist,* and related interpretations. Examples of the types of matters that may involve the work of a specialist include, but are not limited to, valuation of real estate, works of art, jewelry, restricted securities, and determination of amounts derived by using specialized techniques or methods.

4.11 The use of liquidation value as the estimated current value of an asset often involves the use of an appraiser or other specialist to determine that value. The guidance provided by SAS No. 11 should be applied in such situations.

4.12 When capitalization of past earnings is used to determine the estimated current value of an asset, the auditor should—

- Obtain satisfaction that the historical earnings amounts used in determining the estimated current value are appropriate.
- Consider whether the capitalization rate used is reasonable.
- Test the computation of the estimated current value of the asset.

4.13 Determination of the estimated current value of an asset by capitalizing prospective earnings or by discounting the amounts of projected cash receipts and payments involves the development of assumptions. Generally, the auditor can conclude that the assumptions provide a reasonable basis for the determination of the estimated current value of an asset if he concludes that—

- Factors expected to materially affect the valuation of the asset at the date of the financial statements have been explicitly identified and that appropriate assumptions have been developed with respect to such factors.
- The assumptions, including the capitalization rate, are suitably supported.

The auditor should also test the computation of the estimated current value of the asset.

4.14 The auditor should evaluate whether the individual's assumptions relate to all key factors upon which the estimated current value of the asset appears to depend. In evaluating such assumptions, the auditor should consider the relevance and overall completeness of the factors identified, the sensitivity of the estimated current value to variations in particular factors, and the pervasiveness of the particular factors in the various assumptions.

4.15 Analyzing prior-period financial statements of the individual may help identify factors that influence the estimated current value of the asset. The auditor should consider whether any significant deviations from historical trends exist. Such deviations might highlight a significant factor that was not deemed important to the valuation previously.

4.16 In evaluating whether the assumptions are suitably supported, the auditor should consider—

- Whether sufficient pertinent sources of information about the assumptions have been considered. Examples of external sources the auditor might consider are publications, economic forecasts, and existing or proposed legislation. Examples of internal sources are contracts, patents, royalty agreements, and historical financial statements and records.
- Whether the assumptions are consistent with the sources from which they are derived.
- Whether the assumptions are consistent with each other.
- Whether the historical financial information and other data used in developing the assumptions are sufficiently reliable for that purpose.
- Whether the historical financial information and other data used in developing the assumptions are comparable over the periods specified or whether the effects of any lack of comparability were considered in developing the assumptions.
- Whether the assumptions are appropriate in the circumstances.

4.17 Support for assumptions underlying the valuation of certain assets may include market surveys, engineering studies, general economic indicators, industry statistics, contractual agreements, and trends and patterns developed from the individual's financial history.

Auditing Estimated Current Amounts of Liabilities

4.18 SOP 82-1 states that payable and other liabilities included in personal financial statements should be presented at the discounted amount of cash to be paid. If, however, the debtor is able to discharge the debt currently at a lower amount, it should be presented at the lower amount. The auditor's tests of payables and other liabilities included in personal financial statements do not ordinarily differ from those performed in audits of other financial statements.

Auditing Estimated Income Taxes on the Differences Between Estimated Current Values and Amounts and Their Tax Bases

4.19 SOP 82-1 states that personal financial statements should include a provision for estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases, including consideration of negative tax bases of tax shelters, if any. In examining the provision, the auditor should consider whether the tax bases, tax rates, and methods used to calculate the provision are appropriate, and whether the provision is properly calculated.

Auditing Investments in Closely Held Businesses

4.20 When personal financial statements include an individual's investment in a closely held business, the auditor should ascertain whether the investment is accounted for in conformity with generally accepted accounting principles and whether related disclosures are adequate. SOP 82-1 states that (1) only the net investment in such an enterprise should be presented in the statement of financial condition and (2) that summarized financial information about assets, liabilities, and results of operations of the enterprise should be disclosed in the notes to the financial statements. Generally, the auditor should examine sufficient competent evidential matter with regard to existence, ownership, and valuation (see "Auditing Estimated Current Values of Assets" in paragraphs 4.06 through 4.17 of this guide) of the investment, income and losses attributable to the investment, and related financial statement disclosures. Such evidential matter might include—

- Accounting records and documents of the individual relating to the acquisition and ownership of his interest.
- Audited financial statements. Audited financial statements of the investee generally constitute sufficient evidential matter regarding both the cost basis equity in underlying net assets of the investee and summarized financial information disclosed in the personal financial statements.[10] Often, information in the cost basis financial statements of the investee is used in the determination of the estimated current value of the individual's investment.
- Unaudited financial statements. Unaudited financial statements, reports issued on examinations by regulatory bodies and taxing authorities, and similar data provide information and evidence but are not by themselves sufficient as evidential matter. However, by applying selected auditing procedures to the financial statements of an investee, the auditor may be able to obtain evidential matter regarding the cost basis equity in underlying net assets and disclosures of summarized financial information.

Other Disclosures

4.21 In all circumstances the auditor should consider whether the notes to the financial statements adequately disclose the methods used to determine the estimated current values of assets and the estimated current amounts of liabilities presented in the financial statements. Such disclosure is necessary to allow users of the financial statements to make informed judgments concerning the values and amounts at which the assets and liabilities are presented.

Reporting on Audited Personal Financial Statements

4.22 If the auditor is satisfied that the estimated current values and amounts at which assets and liabilities are stated in the financial statements present fairly the financial condition of the individual and, if presented, the changes in the individual's net worth in conformity with generally accepted accounting principles, and if the methods of determining the estimated current values of assets and the estimated current amounts of liabilities are adequately disclosed in the financial statements, the auditor should express an unqualified opinion on the statements.

4.23 If the auditor is unable to apply auditing procedures that provide him with reasonable assurance regarding estimated current values of assets or estimated current amounts of liabilities, he should not express an unqualified opinion. In such circumstances the auditor should qualify his opinion or disclaim an opinion because of a scope limitation.

4.24 If the audit discloses that the methods used to determine the estimated current values of assets or the estimated current amounts of liabilities are not in accordance with SOP 82-1, or documentation does not support the method used, the auditor should qualify his opinion or express an

[10] See SAS No. 1, section 543, for guidance concerning using the work of another auditor.

adverse opinion because of the departure from generally accepted accounting principles.

4.25 Paragraph 15 of SOP 82-1 states that "the methods used to determine the estimated current values of assets and the estimated current amounts of liabilities should be followed consistently from period to period unless the facts and circumstances dictate a change to different methods." Paragraph 31c of the SOP requires disclosure of changes in methods used to determine the estimated current values of assets and the estimated current amounts of liabilities from one period to the next. When facts and circumstances dictate a change to a different method, a reference to the change is not required to be included in the auditor's report. However, when such changes are made at the discretion of the individual and are not dictated by facts and circumstances, the auditor's report should refer to the change as a departure from generally accepted accounting principles.

4.26 In cases involving uncertainties in personal financial statements, the auditor should be able to form an opinion whether the financial statement items affected have been stated in conformity with generally accepted accounting principles in all respects other than those contingent on the outcome of the uncertainties. If he is satisfied that they have been so stated, he may appropriately express an unqualified opinion on the financial statements. In such circumstances, however, the auditor should consider whether an explanatory paragraph needs to be added to the report because of the matter involving an uncertainty. See SAS No. 58, *Reports on Audited Financial Statements,* paragraphs 16 through 33.

Chapter 5

Illustrative Reports on Personal Financial Statements

5.01 The report of an accountant engaged to review or compile personal financial statements should be prepared in conformity with Statements on Standards for Accounting and Review Services. The independent auditor's report should be prepared in accordance with Statements on Auditing Standards.

5.02 The report should be addressed to the individual whose financial condition is presented in the statements and should be dated as of the date of completion of the procedures considered necessary by the accountant in connection with the type of service rendered. Each page of the financial statements compiled or reviewed by the accountant should include a reference such as "See Accountant's Compilation Report" or "See Accountant's Review Report," as appropriate.

Standard Compilation Report

5.03 The following form of report is appropriate for a compilation of personal financial statements:

> I (We) have compiled the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.
>
> A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Compilation Report on Personal Financial Statements That Omit Substantially All Disclosures

5.04 When personal financial statements that the accountant has compiled omit substantially all disclosures, the following form of report is appropriate:

> I (We) have compiled the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.
>
> A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.
>
> James and Jane Person have elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the financial condition of James and Jane Person and changes in their net worth. Accordingly, these financial statements are not designed for those who are not informed about such matters.

5.05 When personal financial statements omit substantially all disclosures and do not disclose that the assets are presented at their estimated current values and that the liabilities are presented at their estimated current amounts, the accountants should include the following sentence at the end of the first paragraph of his report:

> The financial statements are intended to present the assets of James and Jane Person at estimated current values and their liabilities at estimated current amounts.

Compilation Report When the Accountant Is Not Independent

5.06 An accountant is not precluded from issuing a report with respect to his compilation of financial statements for persons with respect to whom he is not independent. If the accountant is not independent, he should specifically disclose the lack of independence. However, the reason for the lack of independence should not be described. When the accountant is not independent, he should include the following as the last paragraph of his report:

> I am (We are) not independent with respect to James and Jane Person.

Compilation Report on Personal Financial Statements Included in Certain Prescribed Forms

5.07 SSARS 3, *Compilation Reports on Financial Statements Included in Certain Prescribed Forms,* provides (1) an alternative form of standard compilation report when a prescribed form or related instructions call for a departure from generally accepted accounting principles by specifying a measurement principle not in conformity with generally accepted accounting principles or by failing to request the disclosures required by generally accepted accounting principles and (2) additional guidance applicable to reports on financial statements included in a prescribed form.

5.08 In accordance with SSARS 3, the following form of standard compilation report may be used when unaudited personal financial statements are included in a prescribed form that calls for departures from the measurement or disclosure principles prescribed by SOP 82-1:

> I (We) have compiled the [*identification of financial statements, including period covered and name of individual(s)*] included in the accompanying prescribed form, in accordance with standards established by the American Institute of Certified Public Accountants.
>
> My (Our) compilation was limited to presenting in the form prescribed by [*name of body*] information that is the representation of the individuals whose financial statements are presented. I (We) have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.
>
> These financial statements (including related disclosures) are presented in accordance with the requirements of [*name of body*], which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

5.09 Since generally accepted accounting principles for personal financial statements involve measurement principles different from those for other reporting entities, the accountant should disclose the use of estimated current values and amounts in his report on personal financial statements included in certain prescribed forms if that disclosure is not provided in the financial statements. In those circumstances, the following paragraph should be included in the accountant's report:

> Except as prescribed by the requirements of [*name of body*], the financial statements are intended to present the assets of James and Jane Person at estimated current values and their liabilities at estimated current amounts.

Standard Review Report

5.10 The following form of report is appropriate for a review of personal financial statements:

> I (We) have reviewed the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James and Jane Person.
>
> A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.
>
> Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Departures From Generally Accepted Accounting Principles in Compilation and Review Reports

5.11 An accountant who is engaged to compile or review personal financial statements may become aware of a departure from generally accepted accounting principles (which include adequate disclosure) that is material to the financial statements. Paragraphs 2.09, 5.04, and 5.05 provide guidance to the accountant when the departure pertains to the omission of substantially all disclosures in financial statements he has compiled. In all other circumstances, if the financial statements are not revised, the accountant should consider whether modification of his standards report is adequate to disclose the departure.[11]

5.12 If the accountant concludes that modification of his standard report is appropriate, the departure should be disclosed in a separate paragraph of his report and should include disclosure of the effects of the departure on the financial statements if such effects have been determined by the individual whose financial statements are being presented or are known as a result of the accountant's procedures. The accountant is not required to determine the effects of a departure if the individual has not done so, provided the accountant states in his report that such determination has not been made. Examples of compilation and review reports that disclose departures from generally accepted accounting principles follow.

Compilation Report—Material Asset at Cost

> I (We) have compiled the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.
>
> A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, I (we) did become aware of a

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[11] For guidance concerning the adequacy of modifications made to a compilation or review report, see Interpretations 6 and 7 of SSARS 1 (AICPA, *Professional Standards,* vol. 2, AR section 9100.18-.26).

departure from generally accepted accounting principles that is described in the following paragraph.

As disclosed in Note X to the financial statements, generally accepted accounting principles require that assets be presented at their estimated current values and that liabilities be presented at their estimated current amounts. James and Jane Person have informed me (us) that their investment in ABC Company is stated in the accompanying financial statements at cost and that the effects of this departure from generally accepted accounting principles on their financial condition and the changes in their net worth have not been determined.

Review Report—Failure to Include a Provision for Estimated Income Taxes on the Differences Between the Estimated Current Values of Assets and the Estimated Current Amounts of Liabilities and Their Tax Bases

I (We) have reviewed the accompanying statement of financial condition of James Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James Person.

A review of personal financial statements consists principally of inquiries of the individual whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, with the exception of the matter described in the following paragraph, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Generally accepted accounting principles require that personal financial statements include a provision for estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases. The accompanying financial statements do not include such a provision and the effect of this departure from generally accepted accounting principles has not been determined.

Standard Audit Report

5.13 The following form of report is appropriate for an audit of personal financial statements:

Independent Auditor's Report

[*Addressee*]

I (We) have audited the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. These financial statements are the responsibility of James and Jane Person. My (Our) responsibility is to express an opinion on these financial statements based on my (our) audit.

I (We) conducted my (our) audit in accordance with generally accepted auditing standards. Those standards require that I (we) plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by James and Jane Person, as well as evaluating the overall financial statement presentation. I (We) believe that my (our) audit provides a reasonable basis for my (our) opinion.

In my (our) opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of James and Jane

Person as of [*date*], and the changes in their net worth for the [*period*] then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

Audit Reports When Accounting Records Are Inadequate

5.14 The auditor may be unable to obtain reasonable assurance that all significant personal assets and liabilities are presented in personal financial statements because of an inadequacy in the accounting records. If such a scope limitation exists, the auditor should qualify his opinion or disclaim an opinion in accordance with SAS No. 58, *Reports on Audited Financial Statements.*

5.15 The following report is appropriate when the auditor decides to qualify his opinion as a result of such a scope limitation:

Independent Auditor's Report

[*Addressee*]

I (We) have audited the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. These financial statements are the responsibility of James and Jane Person. My (Our) responsibility is to express an opinion on these financial statements based on my (our) audit.

Except as explained in the following paragraph, I (we) conducted my (our) audit in accordance with generally accepted auditing standards. Those standards require that I (we) plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by James and Jane Person, as well as evaluating the overall financial statement presentation. I (We) believe that my (our) audit provides a reasonable basis for my (our) opinion.

James and Jane Person do not maintain accounting records sufficient to assure that all transactions are recorded. Accordingly, it was not practicable for me (us) to extend my (our) auditing procedures sufficiently to determine that all of their assets and liabilities and the changes in their net worth are recorded in the financial statements referred to above.

In my (our) opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I (we) been able to determine that all assets and liabilities and changes in net worth were recorded in the financial statements, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial condition of James and Jane Person as of [*date*], and the changes in their net worth for the [*period*] then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

5.16 The following report is appropriate when the auditor decides to disclaim an opinion because of such a scope limitation:

Independent Auditor's Report

[*Addressee*]

I (We) were engaged to audit the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. These financial statements are the responsibility of James and Jane Person.

James and Jane Person do not maintain accounting records sufficient to assure that all transactions are recorded. Accordingly, it was not practicable for me (us) to extend my (our) auditing procedures sufficiently to determine that all of their assets and liabilities and the changes in their net worth are recorded in the financial statements referred to above.

Because James and Jane Person do not maintain certain accounting records and supporting documentation and I was (we were) unable to apply adequate auditing procedures regarding the recording of transactions, the scope of my (our) work was not sufficient to enable me (us) to express, and I (we) do not express, an opinion on these financial statements.

[*Signature*]

[*Date*]

Audit Report Qualified Because of a Departure From Generally Accepted Accounting Principles—Inappropriate Valuation Methods

5.17 The following report is appropriate in circumstances in which the auditor decides to qualify his opinion because of inappropriate procedures to determine the estimated current values of assets. The report assumes that the effects of the departure cannot be reasonably determined, but that the auditor believes that the effects are material.

Independent Auditor's Report

[*Addressee*]

I (We) have audited the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. These financial statements are the responsibility of James and Jane Person. My (Our) responsibility is to express an opinion on these financial statements based on my (our) audit.

I (We) conducted my (our) audit in accordance with generally accepted auditing standards. Those standards require that I (we) plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by James and Jane Person, as well as evaluating the overall financial statement presentation. I (We) believe that my (our) audit provides a reasonable basis for my (our) opinion.

As discussed in Note X to the financial statements, assets amounting to $XX,XXX (XX percent of total assets) as of [*date*] have been valued at estimated current value as determined by James Person. I (We) have reviewed the procedures applied by James Person in valuing the assets and have inspected the underlying documentation. In my (our) opinion, these procedures are not appropriate to determine the estimated current values of the assets in conformity with generally accepted accounting principles. The effects on the financial statements of not applying appropriate procedures to determine the estimated current values of the assets are not reasonably determinable.

In my (our) opinion, except for the effects of the valuation of assets determined by James Person as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial condition of James and Jane Person as of [*date*], and the changes in their net worth for the [*period*] then ended in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

Adverse Opinion Because of a Departure From Generally Accepted Accounting Principles—Inappropriate Valuation Methods

5.18 The following report is appropriate in circumstances in which the auditor decides to issue an adverse opinion because of inappropriate procedures to determine the estimated current values of assets. The report assumes that the effects of the departure cannot be reasonably determined, but that the auditor believes that the effects are material.

Independent Auditor's Report

[*Addressee*]

I (We) have audited the accompanying statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. These financial statements are the responsibility of James and Jane Person. My (Our) responsibility is to express an opinion on these financial statements based on my (our) audit.

I (We) conducted my (our) audit in accordance with generally accepted auditing standards. Those standards require that I (we) plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I (We) believe that my (our) audit provides a reasonable basis for my (our) opinion.

As discussed in Note X to the financial statements, assets amounting to $XX,XXX (XX percent of total assets) as of [*date*] have been valued at estimated current value as determined by James Person. I (We) have reviewed the procedures applied by James Person in valuing the assets and have inspected the underlying documentation. In my (our) opinion those procedures are not appropriate to determine the estimated current values of the assets in conformity with generally accepted accounting principles. The effects on the financial statements of not applying appropriate procedures to determine the estimated current values of the assets are not reasonably determinable.

In my (our) opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with generally accepted accounting principles, the financial condition of James and Jane Person as of [*date*], or the changes in their net worth for the [*period*] then ended.

[*Signature*]

[*Date*]

Reporting on Personal Financial Statements Prepared in Conformity With a Comprehensive Basis of Accounting Other Than Generally Accepted Accounting Principles

5.19 The following forms of reports are appropriate for engagements involving personal financial statements prepared in conformity with a comprehensive basis of accounting other than generally accepted accounting principles.[12]

Compilation Report—Income Tax Basis

I (We) have compiled the accompanying statement of assets and liabilities—income tax basis of James and Jane Person as of [*date*], and the related statement of changes in net assets—income tax basis for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (We) have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Review Report—Historical Cost Basis

I (We) have reviewed the accompanying statement of assets and liabilities —historical cost basis of James and Jane Person as of [*date*], and the related statement of changes in net assets—historical cost basis for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of James and Jane Person.

A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with the historical cost basis of accounting described in Note X.

Audit Report—Income Tax Basis

Independent Auditor's Report

[*Addressee*]

I (We) have audited the accompanying statement of assets and liabilities—income tax basis of James and Jane Person as of [*date*], and the related statement of changes in net assets—income tax basis for the [*period*] then ended. These financial statements are the responsibility of James and Jane Person. My (Our) responsibility is to express an opinion on these financial statements based on my (our) audit.

I (We) conducted my (our) audit in accordance with generally accepted auditing standards. Those standards require that I (we) plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

[12] See SSARS 1, paragraphs 19 through 21; Interpretation 12 of SSARS 1 (AICPA, *Professional Standards,* vol. 2, AR section 9100.41-.45); and SAS No. 62, *Special Reports.*

statements. An audit also includes assessing the accounting principles used and significant estimates made by James and Jane Person, as well as evaluating the overall financial statement presentation. I (We) believe that my (our) audit provides a reasonable basis for my (our) opinion.

As described in Note X, these financial statements were prepared on the basis of accounting James and Jane Person use for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of James and Jane Person as of [*date*], and the changes in their net worth for the [*period*] then ended on the basis of accounting described in Note X.

[*Signature*]

[*Date*]

Reporting on the Statement of Financial Condition Only

5.20 SOP 82-1 does not require the presentation of a statement of changes in net worth. Therefore, accountants may be requested to report on the statement of financial condition only. The following forms of reports are appropriate in such circumstances.

Compilation Report—Statement of Financial Condition Only

I (We) have compiled the accompanying statement of financial condition of James and Jane Person as of [*date*], in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of the individuals whose financial statements are presented. I (We) have not audited or reviewed the accompanying statement of financial condition and, accordingly, do not express an opinion or any other form of assurance on it.

Review Report—Statement of Financial Condition Only

I (We) have reviewed the accompanying statement of financial condition of James and Jane Person as of [*date*], in accordance with standards established by the American Institute of Certified Public Accountants. All information included in this financial statement is the representation of James and Jane Person.

A review of personal financial statements consists principally of inquiries of the individuals whose financial statements are presented and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I (we) do not express such an opinion.

Based on my (our) review, I am (we are) not aware of any material modifications that should be made to the accompanying statement of financial condition in order for it to be in conformity with generally accepted accounting principles.

Audit Report—Statement of Financial Condition Only

Independent Auditor's Report

[*Addressee*]

I (We) have audited the statement of financial condition of James and Jane Person as of [*date*]. This financial statement is the responsibility of James and Jane Person. My (Our) responsibility is to express an opinion on this financial statement based on my (our) audit.

I (We) conducted my (our) audit in accordance with generally accepted auditing standards. Those standards require that I (we) plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by James and Jane Person, as well as evaluating the overall presentation of the statement of financial condition. I (We) believe that my (our) audit provides a reasonable basis for my (our) opinion.

In my (our) opinion, the financial statement referred to above presents fairly, in all material respects, the financial condition of James and Jane Person as of [*date*] in conformity with generally accepted accounting principles.

[*Signature*]

[*Date*]

Reporting on Personal Financial Statements Included in Written Personal Financial Plans

5.21 SSARS 6 provides an exemption from SSARS 1 for personal financial statements that are included in written personal financial plans prepared by an accountant, and specifies the form of written report required under the exemption.

5.22 Because the purpose of such financial statements is solely to assist in developing the client's personal financial plan, they frequently omit disclosures required by generally accepted accounting principles (GAAP) and contain departures from GAAP or from an established comprehensive basis of accounting other than GAAP.

5.23 An accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of SSARS 1, as amended, when all of the following conditions exist:

a. The accountant establishes an understanding with the client, preferably in writing, that the financial statements—
   (i) Will be used solely to assist the client and the client's advisers to develop the client's personal financial goals and objectives.
   (ii) Will not be used to obtain credit or for any purposes other than developing these goals and objectives.

b. Nothing comes to the accountant's attention during the engagement that would cause the accountant to believe that the financial statements will be used to obtain credit or for any purposes other than developing the client's financial goals and objectives.

5.24 Interpretation No. 1 of SSARS 6 states that development of a client's personal financial goals and objectives as used in item a(i) above includes implementing the personal financial plan by the client or the client's advisers because implementing the plan may be considered the culmination of the process of developing personal financial goals and objectives. Therefore, an accountant may submit a written personal financial plan containing unaudited personal financial statements to a client, to be used by the client or the client's advisers to implement the personal financial plan, without complying with the requirements of SSARS 1, provided the conditions in paragraph 3 of SSARS 6 exist. Examples of implementation of a personal financial plan by the client's advisers include use of the plan by:

- an insurance broker who will identify specific insurance products.
- an investment adviser who will provide specific recommendations about the investment portfolio.
- an attorney who will draft a will or trust documents.

5.25 The following is an illustration of an appropriate report when an accountant uses the exemption provided by SSARS 6.

> The accompanying statement of financial condition of James and Jane Person, as of December 31, 19XX, was prepared solely to help you develop your personal financial plan. Accordingly, it may be incomplete or contain other departures from generally accepted accounting principles and should not be used to obtain credit or for any purposes other than developing your financial plan. We have not audited, reviewed, or compiled the statement.

5.26 Each of the personal financial statements should include a reference to the accountant's report.

Appendix A

Illustrative Engagement Letters

Compilation of Personal Financial Statements

[*Salutation*]

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following service(s):

1. We will compile, from information you provide, the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. We will not audit or review such financial statements. Our report on the financial statements is presently expected to read as follows:

   [*Standard Compilation Report*]

   If, for any reason, we are unable to complete our compilation of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will also [*discussion of other services, if any*].

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that might exist. However, we will inform you of any such matters that come to our attention.

Our fees for these services [*specify fees or terms*].

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

____

(Signature of accountant)

Acknowledged:

____

____

____

(Date)

Review of Personal Financial Statements

[*Salutation*]

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following service(s):

1. We will review the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended, in accordance with standards established by the American Institute of Certified Public Accountants. We will not perform an audit of such financial statements, the objective of which is the expression of an opinion regarding the financial statements taken as a whole, and, accordingly, we will not express such an opinion on them. Our report on the financial statements is presently expected to read as follows:

   [*Standard Review Report*]

   If, for any reason, we are unable to complete our review of your financial statements, we will not issue a report on such statements as a result of this engagement.

2. We will also [*discussion of other services, if any*].

Our engagement cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations, that might exist. However, we will inform you of any such matters that come to our attention.

Our fees for these services [*specify fees or terms*].

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

____

(Signature of accountant)

Acknowledged:

____

____

____

(Date)

Audit of Personal Financial Statements

[*Salutation*]

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following service(s):

1. We will audit the statement of financial condition of James and Jane Person as of [*date*], and the related statement of changes in net worth for the [*period*] then ended. Our audit will be conducted in accordance with generally accepted auditing standards and, accordingly, will include such tests of the accounting records and such other auditing procedures as we consider necessary in the circumstances. The purpose of our audit is to enable us to express an opinion regarding whether the financial statements are fairly presented in conformity with generally accepted accounting principles. Our report on the financial statements is presently expected to read as follows:

   [*Standard Audit Report*]

2. We will also [*discussion of other services, if any*].

Our engagement is subject to the inherent risk that material errors, ~~irregulari-~~ties, or illegal acts, including fraud or defalcations, if they exist, will not be detected. However, we will inform you of any such matters that come to our attention.

Our fees for these services [*specify fees or terms*].

We shall be pleased to discuss this letter with you at any time.

If the foregoing is in accordance with your understanding, please sign the copy of this letter in the space provided and return it to us.

Sincerely yours,

____

(Signature of accountant)

Acknowledged:

____

____

____

(Date)

Appendix B

Possible Sources of Information

In gathering data for personal financial statements, the accountant may consider the following documents as possible sources of information concerning the individual's assets and liabilities. The following listing is for illustrative purposes only. These sources may not apply to all engagements, nor are all possible sources listed here. This list is not intended to serve as a program or checklist in conducting an engagement; rather, it describes general sources that might be available in personal financial statement engagements.

Checkbooks. The individual's checkbook may not only be used as the source of the individual's cash balance, but may also serve as the primary record of cash receipts and disbursements. As such, it can provide information concerning addition or disposition of assets and creation or payment of liabilities that should be included in the statement of financial condition. For example, a real estate tax payment should lead the accountant to consider whether the related real estate is recorded as an asset and, if payment was made after the date of the financial statements, whether the liability was or should have been accrued.

Broker's statements. The accountant may use statements provided to the individual by brokers as a source of information regarding marketable securities held by the client and loans that might be outstanding.

Property insurance policies and schedules. The accountant may use insurance policies and schedules to consider whether the assets insured should be included in the financial statements.

Wills. The accountant may use the individual's will to consider whether all assets bequeathed are included in the financial statements.

Leases. The accountant may use leases to consider whether assets and liabilities related to leases are included in the financial statements.

Listings of vault or safe deposit box contents. The accountant may use such listings to consider whether all assets stored and owned by the client are included in the financial statements.

Real estate and personal property tax returns. The accountant may use such tax returns to consider whether all assets listed on such returns and whether all liabilities due the taxing authorities are included in the financial statements.

Income tax returns (and revenue agents' reports, if any). The accountant may use income tax returns and revenue agents' reports to consider whether assets providing income and potential liabilities are recorded in the financial statements.

Financial records of other entities. The accountant may use the financial statements or tax returns of separate entities, such as a closely held business, a trust, or a profit-sharing or deferred compensation plan, as sources of information regarding the client's interest in the entities.

Inquiries. The accountant may make inquiries of the client and, with the client's authorization, of others who might have knowledge of the client's financial activities, concerning possible unrecorded assets and liabilities. Examples of such inquiries might include asking the client if he has a vested interest in any profit-sharing or deferred compensation plan and if he has ever inherited any significant property. If significant property has been inherited, the accountant may find it useful to examine a copy of the will and estate tax return of the person from whom the inheritance was received.

Appendix C

Illustrative Client Representation Letter

[*Date of accountant's report*]

[*To the accountant*]

In connection with your [*compilation, review, or audit*] of the statement of financial condition and the related statement of changes in net worth of James and Jane Person as of [*date*] and for the [*period*] then ended for the purpose of [*description*], we confirm, to the best of our knowledge and belief, the following representations made to you during your [*compilation, review, or audit*].

1. We are responsible for the fair presentation in the statements of financial condition and changes in net worth in conformity with generally accepted accounting principles. All assets are presented at their estimated current values and all liabilities are presented at their estimated current amounts, which have been determined in accordance with guidelines promulgated by the American Institute of Certified Public Accountants. (Because of our limited expertise with generally accepted accounting principles, including financial statement disclosure, we have engaged you to advise us in fulfilling that responsibility.)
2. We have made all financial records and related data available to you. We have not knowingly withheld from you any financial records or related data that in our judgment would be relevant to your [*compilation, review, or audit*].
3. The following have been properly recorded or disclosed in the financial statements:
   a. Related party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees. I understand that related parties include members of my family as well as business entities in which I, or members of my family, have an investment that allows the exercise of control or significant influence.
   b. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
   c. Agreements to repurchase assets previously sold.
4. There are no violations or possible violations of laws or regulations that have come to our attention whose effects are regarded as significant enough to be considered for disclosure in the financial statements or as a basis for recording a loss contingency, and there are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed.
5. There are no material transactions or balances that have not been properly recorded or disclosed in the financial statements.
6. We have satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged.

7. We have not retained an attorney for matters that may involve current or prospective litigation, and we are not aware of any pending or threatened litigation, claims, or assessments that should be disclosed in the financial statements.
8. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
9. No events have occurred subsequent to the date of the statement of financial condition that would require adjustment to, or disclosure in, the financial statements.
10. We have responded fully to all inquiries made to us by you during the engagement.

____

(James Person)

____

(Jane Person)

Appendix D

Review of Personal Financial Statements—Illustrative Inquiries

The inquiries to be made in a review of personal financial statements are a matter of the accountant's judgment. In determining his inquiries, an accountant may consider (1) the nature and materiality of the items, (2) the likelihood of misstatement, (3) knowledge obtained during current and previous engagements, (4) the stated qualifications of the accounting personnel, if any, employed by the individual, (5) the extent to which a particular item is affected by the individual's judgment, and (6) inadequacies in the underlying financial data. The following list of inquiries is for illustrative purposes only. The inquiries do not necessarily apply to every engagement, nor are they meant to be all-inclusive. This list is not intended to serve as a program or checklist in conducting a review; rather, it describes the general areas in which inquiries might be made. For example, the accountant may feel it is necessary to make several inquiries to answer some of the questions listed below, such as those listed in the general section.

General (relate to each section discussed below)

1. What are the procedures for recording, classifying, and summarizing transactions and accumulating information for disclosure in the financial statements?
2. What methods and procedures have been used to determine the estimated current values of assets and the estimated current amounts of liabilities? Are those methods and procedures in conformity with SOP 82-1?
3. Are the methods used to determine the estimated current values of assets and the estimated current amounts of liabilities presented in the financial statements appropriate in light of the nature and circumstances of each asset and liability?
4. Are significant assumptions and interpretations underlying the measurement or presentation of the financial statements reasonable? Have sufficient pertinent sources of information about the assumptions been considered, including key factors expected to materially affect the estimated current values and amounts? Are the assumptions consistent with the sources of information from which they have been derived and with each other? Was historical financial information used in developing the assumptions reliable?
5. Have accounting principles and practices, and methods followed in applying them, been applied on a consistent basis?
6. What sources of data were used in determining the estimated current values of assets and the estimated current amounts of liabilities?
7. Do balances in the available accounting records agree with the financial statements?
8. If the financial statements are prepared for one of a group of joint owners of assets, do the statements include only that person's interest as beneficial owner, as determined under property laws of the state having jurisdiction?

Cash

1. Have bank balances been reconciled with checkbook balances?
2. Have old or unusual reconciling items between bank balances and checkbook balances been reviewed and adjustments made where necessary?
3. Has a proper cutoff of cash transactions been made?
4. Are there any restrictions on the availability of cash balances?
5. Does the balance include interest credited?
6. Has cash on hand, if significant, been counted?

Receivables

1. If appropriate, has interest been recorded?
2. Has a proper cutoff of income been made?
3. Are there any receivables from related parties?
4. Are any receivables pledged, discounted, or factored?
5. Are receivables presented at the discounted amount of cash the person estimates will be collected? Was the interest rate used appropriate at the date of the financial statements?

Marketable Securities

1. Do marketable securities include only those debt and equity securities for which market quotations are available?
2. Are any securities pledged or restricted?
3. Has investment income been accrued?
4. If there is a margin account, has it been recorded in the financial statements?
5. Have securities on hand and in the hands of custodians been reconciled with the records?
6. Have estimated current values been determined by reference to quoted market prices?
   a. For securities traded on securities exchanges, were closing prices on the date of the financial statements used?
   b. If the securities were not traded on the date of the financial statements, is the estimated current value within the bid-asked range?
   c. For securities traded over the counter, is the estimated current value the mean of bid prices, of bid and asked prices, or of the prices of a representative selection of brokers-dealers quoting prices?
7. Has consideration been given to factors, such as the relative size of the owner's interest and any restrictions on the transfer of securities, which might require adjustment to the prices at which the securities could be sold?
8. Have valuations been reduced by estimated costs of disposal?

Prepayments

1. What is the nature of the amounts included in this balance?
2. How are the amounts amortized?

Options

1. Was estimated current value determined on the basis of published prices, or on the value of the assets subject to option, considering such factors as exercise prices and length of the option period?

Investments in Life Insurance

1. Is the estimated current value based on cash value?
2. Are any loans outstanding on the policy? If so, have they been offset against the cash value?

Investments in Closely Held Businesses

1. Have only the *net* investments in business enterprises been presented in the statement of financial condition? Are they shown separately from other investments?
2. How was the estimated current value determined? Is the method used appropriate for determining the amount at which the investment could be exchanged between a buyer and seller, each of whom is well informed and willing and neither of whom is compelled to buy or sell?
3. Has the owner entered into any buy-sell agreements?
4. Have there been any recent appraisals or valid offers?
5. Have appropriate review procedures been applied to the entity's financial statements?

Real Estate (including leaseholds)

1. How was estimated current value determined? Does the method used approximate the amount at which the assets could be exchanged between a buyer and seller, each of whom is well informed and willing and neither of whom is compelled to buy or sell?
2. Is the property mortgaged or subject to any other liens or encumbrances?
3. Is any of the real estate leased?
4. Are there any unrecorded sales, disposals, or abandonments? Were any mortgages taken back?

Intangible Assets

1. What is the nature of amounts included in the balance?
2. Do estimated current values represent the discounted amounts of projected cash receipts and payments arising from the planned use or sale of the assets?

Personal Effects and Other Assets

1. What is the nature of the amounts included in this balance?
2. Were estimated current values determined in a reasonable manner?
3. Are any of these assets subject to any liens or encumbrances?

Future Interests

1. What is the nature of the amounts included in this balance?

2. Do the rights meet the criteria for recognition prescribed in SOP 82-1?
3. Have the amounts to be received been discounted? Was the interest rate used reasonable?

Payables and Other Liabilities

1. Have all significant payables been recorded?
2. What are the terms and other provisions of liability agreements?
3. Are there any collateralized liabilities?
4. Are there any payables to related parties?
5. Have interest and other expenses been accrued?
6. Has there been compliance with restrictive covenants of loan agreements?
7. Have amounts to be paid been discounted at an appropriate rate (ordinarily the rate implicit in the transaction in which the debt was incurred) or, if the debt can be discharged at a lower amount, is the debt presented at the lower amount?

Commitments and Contingencies

1. Are there any contingent liabilities such as discounted notes, drafts, endorsements, litigation or unsettled asserted claims? Are there any unasserted potential claims?
2. Are there any material contractual obligations for construction or purchase of real property or other assets?
3. Are there any commitments or options to purchase or sell securities?
4. Are noncancellable commitments to pay future sums meeting the criteria for recognition described in SOP 82-1 presented at their discounted amounts?

Income and Other Taxes

1. Are there any tax examinations in progress? Have any assessments been received?
2. Have provisions been made for the current and prior years' federal, state, and local tax liabilities?
3. Has a provision been made for estimated income taxes on the differences between estimated current values of assets and the estimated current amounts of liabilities and their tax bases?
4. How were the tax bases of material items determined?

Other

1. Are there any events that occurred after the date of the financial statements that have a significant effect on the financial statements?
2. Have there been any material transactions between related parties?
3. Are there any material uncertainties? Is there any change in the status of material uncertainties previously disclosed?

Income and Expenses

1. Have salaries, bonuses, investment income, distributions from partnerships, and other income been recognized in the appropriate period?
2. Have personal expenditures and expenses been recognized in the appropriate period?

Appendix E

Statement of Position 82-1

Accounting and Financial Reporting for Personal Financial Statements

October 1, 1982

Amendment to
AICPA Industry Audit Guide
Audits of Personal Financial Statements

Issued by
Accounting Standards Division
American Institute of
Certified Public Accountants

AICPA

NOTICE TO READERS

Statements of Position of the Accounting Standards Division present the conclusions of at least a majority of the Accounting Standards Executive Committee, which is the senior technical body of the AICPA authorized to speak for the Institute in the areas of financial accounting and reporting. Statement on Auditing Standards No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles *in the Independent Auditor's Report,* identifies AICPA Statements of Position as sources of established accounting principles that an AICPA member should consider if the accounting treatment of a transaction or event is not specified by a pronouncement covered by Rule 203 of the AICPA Code of Professional Conduct. In such circumstances, the accounting treatment specified by this Statement of Position should be used or the member should be prepared to justify a conclusion that another treatment better presents the substance of the transaction in the circumstances. However, an entity need not change an accounting treatment followed as of March 15, 1992 to the accounting treatment specified in this Statement of Position.

TABLE OF CONTENTS

Accounting and Financial Reporting for Personal Financial Statements

Introduction

1. This statement of position deals with the preparation and presentation of personal financial statements, that is, financial statements of individuals or groups of related individuals (families). Personal financial statements are prepared for individuals either to formally organize and plan their financial affairs in general or for specific purposes, such as obtaining of credit, income tax planning, retirement planning, gift and estate planning, or public disclosure of their financial affairs. Users of personal financial statements rely on them in determining whether to grant credit, in assessing the financial activities of individuals, in assessing the financial affairs of public officials and candidates for public office, and for similar purposes.

2. The 1968 AICPA Industry Audit Guide, *Audits of Personal Financial Statements,* supported historical cost as the primary basis of measurement for personal financial statements and recommended the presentation of estimated current values as additional information. The preface to that guide stated that "generally accepted accounting principles and auditing standards developed for commercial enterprises are applicable in general to personal financial statements." However, the increasing use of personal financial statements and experience with the use of the guide suggested the need to reassess those conclusions in light of the purposes for which personal financial statements are prepared, the users to whom they are directed, and the ways in which they are used. This statement of position is the result of that reassessment; it supersedes the accounting provisions of the 1968 AICPA Industry Audit Guide, *Audits of Personal Financial Statements,* in accordance with the transition and effective date set forth in paragraph 33 of this statement of position.

Basis of Presentation of Personal Financial Statements

3. The primary focus of personal financial statements is a person's assets and liabilities, and the primary users of personal financial statements normally consider estimated current value information to be more relevant for their decisions than historical cost information. Lenders require estimated current value information to assess collateral, and most personal loan applications require estimated current value information. Estimated current values are required for estate, gift, and income tax planning, and estimated current value information about assets is often required in federal and state filings of candidates for public office.

4. The accounting standards division therefore believes personal financial statements should present assets at their estimated current values and liabilities at their estimated current amounts at the date of the financial statements. Paragraph 12 of this statement of position defines estimated current values of assets. Paragraph 27 defines estimated current amounts of liabilities. This statement of position explains how the estimated current values of assets and the estimated current amounts of liabilities should be determined and applied in the preparation and presentation of personal financial statements.[1]

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[1] The division recognizes that users of personal financial statements may sometimes request certain historical cost information. This statement of position does not prohibit supplemental presentation of such information.

Presentation of Personal Financial Statements

The Reporting Entity

5. Personal financial statements may be prepared for an individual, a husband and wife, or a family.

The Form of the Statements

6. Personal financial statements consist of—

a. *A statement of financial condition.* This is the basic personal financial statement. It presents the estimated current values of assets, the estimated current amounts of liabilities, estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases, and net worth at a specified date. The term *net worth* should be used in the statement to designate the difference between total assets and total liabilities, after deducting estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases.

b. *A statement of changes in net worth.* This statement presents the major sources of increases and decreases in net worth. It should present the major sources of increases in net worth: income, increases in the estimated current values of assets, decreases in the estimated current amounts of liabilities, and decreases in estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases. It should present the major sources of decreases in net worth: expenses, decreases in the estimated current values of assets, increases in the estimated current amounts of liabilities, and increases in estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases. One statement combining income and other changes is desirable because of the mix of business and personal items in personal financial statements. The presentation of a statement of changes in net worth is optional.

c. *Comparative financial statements.* The presentation of comparative financial statements of the current period and one or more prior periods may sometimes be desirable. Such a presentation is more informative than the presentation of financial statements for only one period. The presentation of comparative financial statements is optional.

Illustrative financial statements are presented in Appendix A to this statement of position.

The Methods of Presentation

7. Assets and liabilities and changes in them should be recognized on the accrual basis, not on the cash basis.

8. The most useful and readily understood presentation of assets and liabilities in personal financial statements is by order of liquidity and maturity, without classification as current and noncurrent, since the concept of

working capital applied to business enterprises is inappropriate for personal financial statements.

9. If personal financial statements are prepared for one of a group of joint owners of assets, the statements should include only the person's interest as a beneficial owner, as determined under the property laws of the state having jurisdiction. If property is held in joint tenancy, as community property, or through a similar joint ownership arrangement, the legal status of the separate equities of the parties may not be evident. In that case, the person may require legal advice to determine whether an interest in the property should be included among the person's assets and, if so, the proper allocation of the equity in the property under the applicable state laws.

10. Business interests that constitute a large part of a person's total assets should be shown separately from other investments. The estimated current value of an investment in a separate entity, such as a closely held corporation, a partnership, or a sole proprietorship, should be shown in one amount as an investment if the entity is marketable as a going concern. Assets and liabilities of the separate entity should not be combined with similar personal items.

11. The estimated current values of assets and the estimated current amounts of liabilities of limited business activities not conducted in a separate business entity, such as an investment in real estate and a related mortgage, should be presented as separate amounts, particularly if a large portion of the liabilities may be satisfied with funds from sources unrelated to the investment.

Guidelines for Determining the Estimated Current Values of Assets and the Estimated Current Amounts of Liabilities

General

12. Personal financial statements should present assets at their estimated current values and liabilities at their estimated current amounts. The estimated current value of an asset in personal financial statements is the amount at which the item could be exchanged between a buyer and seller, each of whom is well informed and willing, and neither of whom is compelled to buy or sell. Costs of disposal, such as commissions, if material, should be considered in determining estimated current values.[2] The division recognizes that the estimated current values of some assets may be difficult to determine and the cost of obtaining estimated current values of some assets directly may exceed the benefits of doing so; therefore, the division recommends that judgment be exercised in determining estimated current values.

13. Recent transactions involving similar assets and liabilities in similar circumstances ordinarily provide a satisfactory basis for determining the estimated current value of an asset and the estimated current amount of a liability. If recent sales information is unavailable, other methods that may be used include the capitalization of past or prospective earnings, the use of liquidation values, the adjustment of historical cost based on changes in a specific price index, the use of appraisals, or the use of the discounted amounts of projected cash receipts and payments.

14. In determining the estimated current values of some assets (for example, works of art, jewelry, restricted securities, investments in closely held businesses, and real estate), the person may need to consult a specialist.

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[2] Paragraph 27 defines the estimated current amount of a liability.

15. The methods used to determine the estimated current values of assets and the estimated current amounts of liabilities should be followed consistently from period to period unless the facts and circumstances dictate a change to different methods.

Receivables

16. Personal financial statements should present receivables at the discounted amounts of cash the person estimates will be collected, using appropriate interest rates at the date of the financial statements.

Marketable Securities

17. Marketable securities include both debt and equity securities for which market quotations are available. The estimated current values of such securities are their quoted market prices. The estimated current values of securities traded on securities exchanges are the closing prices of the securities on the date of the financial statements (valuation date) if the securities were traded on that date. If the securities were not traded on that date but published bid and asked prices are available, the estimated current values of the securities should be within the range of those prices.

18. For securities traded in the over-the-counter market, quotations of bid and asked prices are available from several sources, including the financial press, various quotation publications and financial reporting services, and individual broker-dealers. For those securities, the mean of the bid prices, of the bid and asked prices, or of the prices of a representative selection of broker-dealers quoting the securities may be used as the estimated current values.

19. An investor may hold a large block of the equity securities of a company. A large block of stock might not be salable at the price at which a small number of shares were recently sold or quoted. Further, a large minority interest may be difficult to sell despite isolated sales of a small number of shares. However, a controlling interest may be proportionately more valuable than minority interests that were sold. Consideration of those factors may require adjustments to the price at which the security recently sold. Moreover, restrictions on the transfer of a security may also suggest the need to adjust the recent market price in determining the estimated current value.[3]

Options

20. If published prices of options are unavailable, their estimated current values should be determined on the basis of the values of the assets subject to option, considering such factors as the exercise prices and length of the option periods.

Investment in Life Insurance

21. The estimated current value of an investment in life insurance is the cash value of the policy less the amount of any loans against it. The face amount of life insurance the individuals own should be disclosed.

Investments in Closely Held Businesses

22. The division recognizes that the estimated current values of investments in closely held businesses usually are difficult to determine. The problems relate to investments in closely held businesses in any form, includ-

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[3] For further discussion on valuing marketable securities, see the AICPA Audit and Accounting Guide *Audits of Investment Companies,* paragraphs 1.30 through 1.36.

ing sole proprietorships, general and limited partnerships, and corporations. As previously stated, only the net investment in a business enterprise (not its assets and liabilities) should be presented in the statement of financial condition. The net investment should be presented at its estimated current value at the date of the financial statement. Since there is usually no established ready market for such an investment, judgment should be exercised in determining the estimated current value of the investment.

23. There is no one generally accepted procedure for determining the estimated current value of an investment in a closely held business. Several procedures or combinations of procedures may be used to determine the estimated current value of a closely held business, including a multiple of earnings, liquidation value, reproduction value, appraisals, discounted amounts of projected cash receipts and payments, or adjustments of book value or cost of the person's share of the equity of the business.[4] The owner of an interest in a closely held business may have entered into a buy-sell agreement that specifies the amount (or the basis of determining the amount) to be received in the event of withdrawal, retirement, or sale. If such an agreement exists, it should be considered, but it does not necessarily determine estimated current value. Whatever procedure is used, the objective should be to approximate the amount at which the investment could be exchanged between a buyer and a seller, each of whom is well informed and willing, and neither of whom is compelled to buy or sell.

Real Estate (Including Leaseholds)

24. Investments in real estate (including leaseholds) should be presented in personal financial statements at their estimated current values. Information that may be used in determining their estimated current values includes—

a. Sales of similar property in similar circumstances.

b. The discounted amounts of projected cash receipts and payments relating to the property or the net realizable value of the property, based on planned courses of action, including leaseholds whose current rental value exceeds the rent in the lease.

c. Appraisals based on estimates of selling prices and selling costs obtained from independent real estate agents or brokers familiar with similar properties in similar locations.

d. Appraisals used to obtain financing.

e. Assessed value for property taxes, including consideration of the basis for such assessments and their relationship to market values in the area.

Intangible Assets

25. Intangible assets should be presented at the discounted amounts of projected cash receipts and payments arising from the planned use or sale of the assets if both the amounts and timing can be reasonably estimated. For example, a record of receipts under a royalty agreement may provide sufficient information to determine its estimated current value. The cost of a purchased intangible should be used if no other information is available.

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[4] The book value or cost of a person's share of the equity of a business adjusted for appraisals of specific assets, such as real estate or equipment, is sometimes used as the estimated current value.

Future Interests and Similar Assets

26. Nonforfeitable rights to receive future sums that have all the following characteristics should be presented as assets at their discounted amounts:

- The rights are for fixed or determinable amounts.
- The rights are not contingent on the holder's life expectancy or the occurrence of a particular event, such as disability or death.
- The rights do not require future performance of service by the holder.

Nonforfeitable rights that may have those characteristics include—

- Guaranteed minimum portions of pensions.
- Vested interests in pension or profit sharing plans.
- Deferred compensation contracts.
- Beneficial interests in trusts.
- Remainder interests in property subject to life estates.
- Annuities.
- Fixed amounts of alimony for a definite future period.

Payables and Other Liabilities

27. Personal financial statements should present payables and other liabilities at the discounted amounts of cash to be paid. The discount rate should be the rate implicit in the transaction in which the debt was incurred. If, however, the debtor is able to discharge the debt currently at a lower amount, the debt should be presented at the lower amount.[5]

Noncancellable Commitments

28. Noncancellable commitments to pay future sums that have all the following characteristics should be presented as liabilities at their discounted amounts:

- The commitments are for fixed or determinable amounts.
- The commitments are not contingent on others' life expectancies or the occurrence of a particular event, such as disability or death.
- The commitments do not require future performance of service by others.

Noncancellable commitments that may have those characteristics include fixed amounts of alimony for a definite future period and charitable pledges.

Income Taxes Payable

29. The liability for income taxes payable should include unpaid income taxes for completed tax years and an estimated amount for income taxes accrued for the elapsed portion of the current tax year to the date of the financial statements. That estimate should be based on the relationship of taxable income earned to date to total estimated taxable income for the year, net of taxes withheld or paid with estimated income tax returns.

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[5] For a further discussion of the setting of a discount rate for payables and other liabilities, see APB Opinion 21, *Interest on Receivables and Payables*, paragraph 13.

Estimated Income Taxes on the Differences Between the Estimated Current Values of Assets and the Estimated Current Amounts of Liabilities and Their Tax Bases

30. A provision should be made for estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases, including consideration of negative tax bases of tax shelters, if any. The provision should be computed as if the estimated current values of all assets had been realized and the estimated current amounts of all liabilities had been liquidated on the statement date, using applicable income tax laws and regulations, considering recapture provisions and available carryovers. The estimated income taxes should be presented between liabilities and net worth in the statement of financial condition. The methods and assumptions used to compute the estimated income taxes should be fully disclosed. Appendix B to this statement of position illustrates how to compute the provision.

Financial Statement Disclosures

31. Personal financial statements should include sufficient disclosures to make the statements adequately informative. The disclosures may be made in the body of the financial statements or in the notes. The following enumeration is intended not to be all-inclusive but simply indicative of the nature and type of information that ordinarily should be disclosed:

a. A clear indication of the individuals covered by the financial statements

b. That assets are presented at their estimated current values and liabilities are presented at their estimated current amounts

c. The methods used in determining the estimated current values of major assets and the estimated current amounts of major liabilities or major categories of assets and liabilities, since several methods are available, and changes in methods from one period to the next

d. If assets held jointly by the person and by others are included in the statements, the nature of the joint ownership

e. If the person's investment portfolio is material in relation to his or her other assets and is concentrated in one or a few companies or industries, the names of the companies or industries and the estimated current values of the securities

f. If the person has a material investment in a closely held business, at least the following:

- The name of the company and the person's percentage of ownership
- The nature of the business
- Summarized financial information about assets, liabilities, and results of operations for the most recent year based on the financial statements of the business, including information about the basis of presentation (for example, generally accepted accounting principles, income tax basis, or cash basis) and any significant loss contingencies

g. Descriptions of intangible assets and their estimated useful lives

h. The face amount of life insurance the individuals own *i.* Nonforfeitable rights that do not have the characteristics discussed in paragraph 26, for example, pensions based on life expectancy

j. The following tax information:

- The methods and assumptions used to compute the estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases and a statement that the provision will probably differ from the amounts of income taxes that might eventually be paid because those amounts are determined by the timing and the method of disposal, realization, or liquidation and the tax laws and regulations in effect at the time of disposal, realization, or liquidation
- Unused operating loss and capital loss carryforwards
- Other unused deductions and credits, with their expiration periods, if applicable
- The differences between the estimated current values of major assets and the estimated current amounts of major liabilities or categories of assets and liabilities and their tax bases

k. Maturities, interest rates, collateral, and other pertinent details relating to receivables and debt

l. Noncancellable commitments that do not have the characteristics discussed in paragraph 28, for example, operating leases

32. Generally accepted accounting principles other than those discussed in this statement of position may apply to personal financial statements. For example, FASB Statement No. 5, *Accounting for Contingencies,* and related amendments and interpretations, provide guidance on accounting for contingencies, and FASB Statement No. 57, *Related Party Disclosures,* provides guidance on related-party disclosures.

Transition and Effective Date

33. The accounting standards division recommends that the provisions of this statement of position should apply to personal financial statements dated June 30, 1983, or after. Comparative statements of prior periods should be restated to comply with the provisions of this statement of position.

APPENDIX A
Illustrative Financial Statements

James and Jane Person
Statements of Financial Condition
December 31, 19X3 and 19X2

	December 31, 19X3	December 31, 19X2
Assets		
Cash	$ 3,700	$ 15,600
Bonus receivable	20,000	10,000
Investments		
Marketable securities (Note 2)	160,500	140,700
Stock options (Note 3)	28,000	24,000
Kenbruce Associates (Note 4)	48,000	42,000
Davekar Company, Inc. (Note 5)	550,000	475,000
Vested interest in deferred profit sharing plan	111,400	98,900
Remainder interest in testamentary trust (Note 6)	171,900	128,800
Cash value of life insurance ($43,600 and $42,900), less loans payable to insurance companies ($38,100 and $37,700) (Note 7)	5,500	5,200
Residence (Note 8)	190,000	180,000
Personal effects (excluding jewelry) (Note 9)	55,000	50,000
Jewelry (Note 9)	40,000	36,500
	$1,384,000	$1,206,700

	December 31,	
	19X3	*19X2*
Liabilities		
Income taxes — current year balance	$ 8,800	$ 400
Demand 10.5% note payable to bank	25,000	26,000
Mortgage payable (Note 10)	98,200	99,000
Contingent liabilities (Note 11)		
	132,000	125,400
Estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases (Note 12)	239,000	160,000
Net worth	1,013,000	921,300
	$1,384,000	$1,206,700

The accompanying notes are an integral part of these financial statements.

James and Jane Person
Statements of Changes in Net Worth
For the Years Ended December 31, 19X3 and 19X2

	Year ended December 31,	
	19X3	*19X2*
Realized increases in net worth		
Salary and bonus	$ 95,000	$ 85,000
Dividends and interest income	2,300	1,800
Distribution from limited partnership	5,000	4,000
Gains on sales of marketable securities	1,000	500
	103,300	91,300
Realized decreases in net worth		
Income taxes	26,000	22,000
Interest expense	13,000	14,000
Real estate taxes	4,000	3,000
Personal expenditures	36,700	32,500
	79,700	71,500
Net realized increase in net worth	23,600	19,800

	Year ended December 31,	
	19X3	*19X2*
Unrealized increases in net worth		
Marketable securities (net of realized gains on securities sold)	3,000	500
Stock options	4,000	500
Davekar Company, Inc.	75,000	25,000
Kenbruce Associates	6,000	
Deferred profit sharing plan	12,500	9,500
Remainder interest in testamentary trust	43,100	25,000
Jewelry	3,500	
	147,100	60,500
Unrealized decrease in net worth		
Estimated income taxes on the differences between the estimated current values of assets and the estimated current amounts of liabilities and their tax bases	79,000	22,000
Net unrealized increase in net worth	68,100	38,500
Net increase in net worth	91,700	58,300
Net worth at the beginning of year	921,300	863,000
Net worth at the end of year	$1,013,000	$ 921,300

The accompanying notes are an integral part of these financial statements.

James and Jane Person

Notes to Financial Statements

Note 1. The accompanying financial statements include the assets and liabilities of James and Jane Person. Assets are stated at their estimated current values, and liabilities at their estimated current amounts.

Note 2. The estimated current values of marketable securities are either (*a*) their quoted closing prices or (*b*) for securities not traded on the financial statement date, amounts that fall within the range of quoted bid and asked prices.

Marketable securities consist of the following:

	December 31, 19X3		*December 31, 19X2*	
	Number of shares or bonds	*Estimated current values*	*Number of shares or bonds*	*Estimated current values*
Stocks				
Jaiven Jewels, Inc.	1,500	$ 98,813		
McRae Motors, Ltd.	800	11,000	600	$ 4,750
Parker Sisters, Inc.	400	13,875	200	5,200
Rosenfield Rug Co.			1,200	96,000
Rubin Paint Company	300	9,750	100	2,875
Weiss Potato Chips, Inc.	200	20,337	300	25,075
		153,775		133,900
Bonds				
Jackson Van Lines, Ltd. (12% due 7/1/X9)	5	5,225	5	5,100
United Garvey, Inc. (7% due 11/15/X6)	2	1,500	2	1,700
		6,725		6,800
		$160,500		$140,700

Note 3. Jane Person owns options to acquire 4,000 shares of stock of Winner Corp. at an option price of $5 per share. The option expires on June 30, 19X5. The estimated current value is its published selling price.

Note 4. The investment in Kenbruce Associates is an 8% interest in a real estate limited partnership. The estimated current value is determined by the projected annual cash receipts and payments capitalized at a 12% rate.

Note 5. James Person owns 50% of the common stock of Davekar Company, Inc., a retail mail order business. The estimated current value of the investment is determined by the provisions of a shareholders' agreement, which restricts the sale of the stock and, under certain conditions, requires the company to repurchase the stock based on a price equal to the book value of the net assets plus an agreed amount for goodwill. At December 31, 19X3, the agreed amount for goodwill was $112,500, and at December 31, 19X2, it was $100,000.

A condensed balance sheet of Davekar Company, Inc., prepared in conformity with generally accepted accounting principles, is summarized below:

	December 31,	
	19X3	19X2
Current assets	$3,147,000	$2,975,000
Plant, property, and equipment—net	165,000	145,000
Other assets	120,000	110,000
Total assets	3,432,000	3,230,000
Current liabilities	2,157,000	2,030,000
Long-term liabilities	400,000	450,000
Total liabilities	2,557,000	2,480,000
Equity	$ 875,000	$ 750,000

The sales and net income for 19X3 were $10,500,000 and $125,000 and for 19X2 were $9,700,000 and $80,000.

Note 6. Jane Person is the beneficiary of a remainder interest in a testamentary trust under the will of the late Joseph Jones. The amount included in the accompanying statements is her remainder interest in the estimated current value of the trust assets, discounted at 10%.

Note 7. At December 31, 19X3 and 19X2, James Person owned a $300,000 whole life insurance policy.

Note 8. The estimated current value of the residence is its purchase price plus the cost of improvements. The residence was purchased in December 19X1, and improvements were made in 19X2 and 19X3.

Note 9. The estimated current values of personal effects and jewelry are the appraised values of those assets, determined by an independent appraiser for insurance purposes.

Note 10. The mortgage (collateralized by the residence) is payable in monthly installments of $815 a month, including interest at 10% a year through 20Y8.

Note 11. James Person has guaranteed the payment of loans of Davekar Company, Inc., under a $500,000 line of credit. The loan balance was $300,000 at December 31, 19X3, and $400,000 at December 31, 19X2.

Note 12. The estimated current amounts of liabilities at December 31, 19X3, and December 31, 19X2, equaled their tax bases. Estimated income taxes have been provided on the excess of the estimated current values of assets over their tax bases as if the estimated current values of the assets had been realized on the statement date, using applicable tax laws and regulations. The provision will probably differ from the amounts of income taxes that eventually might be paid because those amounts are determined by the timing and the method of disposal or realization and the tax laws and regulations in effect at the time of disposal or realization.

The estimated current values of assets exceeded their tax bases by $850,000 at December 31, 19X3, and by $770,300 at December 31, 19X2. The excess of estimated current values of major assets over their tax bases are—

	December 31,	
	19X3	19X2
Investment in Davekar Company, Inc.	$ 430,500	$ 355,500
Vested interest in deferred profit sharing plan	111,400	98,900
Investment in marketable securities	104,100	100,000
Remainder interest in testamentary trust	97,000	53,900

APPENDIX B

Computing the Excess of the Estimated Current Values of Assets Over Their Tax Bases and the Estimated Income Taxes on the Excess

This appendix relates to the preceding illustrative financial statements of James and Jane Person (Appendix A) and illustrates how to compute the excess of the estimated current values of assets over their tax bases and the provision for estimated income taxes on the excess.[1]

The excess or deficit of the estimated current values of major assets or categories of assets over their tax bases should be disclosed.[2] The provision for estimated income taxes should be presented in the statement of financial condition between liabilities and net worth.

The assumptions and the tax basis information used in computing the excess of the estimated current values of assets over their tax bases and the estimated income taxes on the excess depend on the facts, circumstances, tax laws and regulations, and assumptions that apply to the individual or individuals for whom the financial statements are prepared. The facts, circumstances, tax laws and regulations, and assumptions used in the following are illustrative only.

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[1] The provision for estimated income taxes should also reflect tax consequences that result from differences between the estimated current amounts of liabilities and their tax bases.

[2] Differences between the estimated current amounts of major liabilities or categories of liabilities and their tax bases should also be disclosed.

Description	(A) Estimated current values	(B) Tax bases	Excess of (A) over (B)	Effective income tax rates	Amount of estimated income taxes	Assumptions used
Cash	$ 3,700	$ 3,700	—	—	—	No tax effect.
Bonus receivable	20,000	—	$ 20,000	50%	$ 10,000	Maximum tax rate.
Investments						
Marketable securities	160,500	56,400	104,100	36%	37,500	Weighted average of short-term and long-term capital gain rates based on composition of portfolio.
Stock options	28,000	20,000	8,000	50%	4,000	Short-term capital gain rate.
Kenbruce Associates	48,000	24,000	24,000	38%	9,100	Weighted average of short-term and long-term capital gain rates.
Davekar Company, Inc.	550,000	119,500	430,500	20%	86,100	Long-term capital gain rate.
Vested interest in deferred profit sharing plan	111,400	—	111,400	50%	55,700	Maximum tax rate.
Remainder interest in testamentary trust	171,900	74,900	97,000	26%	25,600	Weighted average of short-term and long-term capital gain rates.
Cash value of life insurance	5,500	5,500	—	—	—	No tax effect.
Residence	190,000	190,000	—	—	—	No tax effect.
Personal effects	55,000	30,000	25,000	20%	5,000	Long-term capital gain rate.
Jewelry	40,000	10,000	30,000	20%	6,000	Long-term capital gain rate.
	$1,384,000	$534,000	$850,000 [1]		$239,000 [2]	

[1] The excess or deficit of the estimated current values of major assets or categories of assets over their tax bases should be disclosed.

[2] This amount should be presented in the statement of financial condition between liabilities and net worth.

Appendix F

Schedule of Changes Made to Personal Financial Statements Guide

Reference	Change	Date
General	The term "examination" has been changed to "audit" to conform to SAS No. 58.	October, 1990
Paragraph 1.04	Reference to SAS No. 14 changed to SAS No. 62.	October, 1990
Paragraph 2.01	Reference to SSARS 6 added.	April, 1992
Paragraph 2.05	The term "errors" has been changed to "misstatements."	October, 1990
Paragraph 2.08	Reference "subject to" modification of compilation report conformed to current *Codification of Statements on Standards for Compilation and Review Services.*	October, 1990
Paragraph 3.06	The phrase "a study and evaluation of internal accounting control" has been changed to "obtaining an understanding of the internal control structure or assessing control risk" to conform to SAS No. 55.	October, 1990
Paragraphs 4.01, 4.02, and 4.03	Terminology conformed to SAS No. 55.	October, 1990
Paragraph 4.04 (footnote 9)	Reference to SAS No. 2 changed to SAS No. 58.	October, 1990
Paragraph 4.06	Reference to SAS No. 57 added.	April, 1992
Paragraph 4.25	Conformed to and reference made to SAS No. 58.	October, 1990
Paragraphs 5.13, 5.15, 5.16, 5.17, 5.18, and 5.20	Auditor's reports conformed to SAS No. 58.	October, 1990
Paragraph 5.19	Auditor's report conformed to SAS No. 62.	October, 1990
Paragraphs 5.21—5.26	Integrated from SSARS 6 and Interpretation No. 1 of SSARS 6.	April, 1992
Appendix E	Notice to Readers revised to reflect SAS No. 69.	April, 1992

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